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MAY 31 2007

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Mr. Ben Grumbles
Assistant Administrator, Office of Water
U.S. Environmental Protection Agency
Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460

Dear Ben:

The Environmental Financial Advisory Board (EFAB) is pleased to submit the enclosed report, ***“EFAB Comments on EPA Document: Combined Sewer Overflows—Guidance for Financial Capability Assessment and Schedule Development.”*** The report summarizes EFAB’s review of this guidance and provides EPA with our comments. Dr. Andrew Sawyers, Program Administrator, Maryland Water Quality Financing Administration, and Jeff Hughes, Director, University of North Carolina (Chapel Hill) Environmental Finance Center, were instrumental in the development of this report. In keeping with EPA’s request, the report is limited to examining the existing components of the Financial Capability Assessment (FCA) methodology and does not address policy issues related to implementing EPA’s Combined Sewer Overflows (CSO) regulatory approach.

The FCA Guidance has been used since 1997 as a tool to assist EPA in assessing a permittee’s financial capability to meet the terms of EPA’s CSO Policy. The Guidance outlines a two-part test in determining financial capability, with one element addressing household impact and the second element addressing system-wide financial capability. EFAB in this report recognizes the merits of the two-part test. However, the Board believes that the current residential and the system financial capability indicators used in the two part test have some significant limitations. EFAB believes that EPA will be better able to assess a permittee’s financial capability by updating both of these indicators.

For example, the residential indicator now used to measure the impact on individual households does not fully consider the breadth of factors that impact household finances, particularly in communities with a high proportion of disadvantaged households. The reliance on median household income only may disguise the impact of income distribution and poverty rate for many utilities. In revising the FCA Guidance, EFAB recommends that EPA develop a residential indicator which considers actual household expenditures based on average water use, using the rate structures expected to be in effect after the CSO improvements are implemented, rather than assume that the entire cost of controls is spread evenly across households. This would also allow consideration of the effect which lifeline rates or low-income assistance programs could have on mitigating impacts.

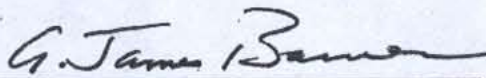
In looking at costs to systems, the FCA Guidance relies on a limited definition of cost that excludes the impact of certain management strategies such as asset management, proactive cash flow planning and rate setting strategies, and does not fully consider factors such as investment timing, population growth, and investment options/terms. Finally, reliance solely on household cost comparisons may neglect the effect of costs on commercial or industrial customers who in some instances may be essential to utility financial health.

The FCA guidance currently considers the cumulative impacts of existing wastewater treatment and proposed CSO control initiatives. EFAB understands the reasons behind this approach, including the value of considering the impact of CSO implementation in the context of other water pollution control costs being borne by the community. However, the Board also recognizes the value of incremental costs in providing more immediate and specific indicators of financial stress. EFAB therefore recommends that EPA consider both the cumulative impact of pollution control services as well as the incremental impact of CSO control initiatives.

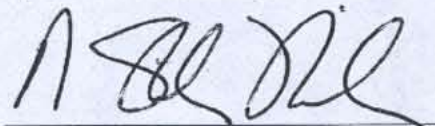
Finally, the Board urges EPA to revisit the portions of the FCA guidance which discuss system financial capability and include additional management indicators to better reflect advances since the document was written in 1997. Areas outlined by the Board for improvements include debt indicators, bond ratings, socio-economic indicators, and financial management indicators. For example, unlike operating ratio, property tax collections do not adequately illustrate the ability of utilities to incur debt and meet future costs.

The Board is prepared to discuss its findings and recommendations with you, answer any questions you may have, and take any follow-up actions you would like to pursue consistent with the Board's charter. We greatly appreciate the continuing opportunity to serve the Agency.

Sincerely,



A. James Barnes
Chair



A. Stanley Meiburg
Designated Federal Official

Enclosure

cc: James A. Hanlon
Director, Office of Wastewater Management
Cynthia C. Dougherty
Director, Office of Ground Water and Drinking Water